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## Inventory control through financial control.

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THE  
GEORGE WASHINGTON UNIVERSITY

NAVY GRADUATE COMPTROLLERSHIP PROGRAM

INVENTORY CONTROL THROUGH  
FINANCIAL CONTROL

By  
Jerome J. Scheela  
LCdr., USN

For  
Dr. A. Rex Johnson  
May, 1956







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## CHAPTER I

### INTRODUCTION

Each officer student, during his course of instruction at George Washington University, has become attached to one phase of the Comptrollership program whose shrouds and mysteries are such that he feels an uncontrollable desire to peer behind this veil of secrecy to see what makes the operation tick. Besides the desire to better understand the purpose and function of the Navy Supply system, I am especially interested in the role of the Financial Control Officer at a Navy Supply Demand Control Point. The latter fact is easy to comprehend since my orders from school nominate me for duty as the Financial Control Officer at the General Stores Supply Office, Philadelphia, Pennsylvania.

In order to prepare myself for my next duty assignment, it has been my earnest desire to explore the details of the operation of a Financial Control officer, which I hope will enable me to secure a better grasp of the general operations of the job to which I am assigned. Also, in order to understand how this "segment" fits into the overall picture of the Navy Supply system, I propose to summarize briefly in the first two chapters of my paper, the history of the Navy Stock Fund and the functions of a Supply Demand Control Point with special emphasis on the Supply Demand Control Point to which I will be attached--General Stores Supply Office. The General Stores Supply Officer is one of ten program managers responsible for the operation of a segment of the Navy Stock Fund. I will devote the latter part of the paper in explaining



how the General Stores Supply Officer fulfills his responsibility to the Chief of the Bureau of Supplies and Accounts for his portion of the Naval Stock Fund through the efforts of maintaining inventory control through financial control as seen through the eyes of the Financial Control Officer.

I wish to express my sincere appreciation to Commander Joseph Andrews, SC, USN, Financial Control Officer, General Stores, Supply Office, Philadelphia, Pennsylvania, for his earnest contributions and beneficial suggestions.





## CHAPTER II

### THE NAVY STOCK FUND

The term "stock fund" is almost as common in the Navy today as the terms "swab," "blue jacket" or "gold braid." As a matter of fact, there has been a stock fund operation in the Navy of one type or another almost as long as there have been the items mentioned above. Most personnel--military and civilian--in the Navy today have a general understanding of the Navy Stock Fund and its operations. By many, such an operation is taken for granted. Few people--including those in the Supply Corps--realize that the Stock Fund has persisted and reached its pinnacle of effectiveness only after 175 years of stormy passages from the crest of one wave to the crest of another while intermittently wallowing in the depths of the trough.

Although this paper is primarily interested in the functions of the Financial Control Officer at a Supply Demand Control Point, the heart and soul of this entire operation centers around the Stock Fund theory. It is extremely difficult for a neophyte author to maintain continuity in any written presentation, and I do not wish to get ahead of my story; however, I feel that the Stock Fund principle itself plays such a vital part in the success of the Supply Corps today that I should do well at this time to quote from the report of the Paymaster General of the Navy--Admiral Sam McGowan--for the year 1920, as follows:

The specific advantage of Naval supply account--and there are no disadvantages--may be recapitulated as follows:



FINANCIAL

- (a) Reduces money necessary to provide working stocks of materials.
- (b) Lodges charges for material when used against the appropriation Congress intended should pay for the material.
- (c) Permits purchases in volume, shipments in large lots.
- (d) Insures wide competition among all producers.

STORAGE

- (a) Permits one storehouse organization for the Navy.
- (b) Reduces demand for space, as it provides one instead of many reserve stocks.
- (c) One recording system of all Navy stocks available.
- (d) Permits everything of one kind to be stored together, so that the Navy knows or can quickly determine what it has.
- (e) One reserve for all users instead of one for each.

PURCHASING

- (a) Makes possible a centralized controlled buying for the entire Navy.
- (b) Permits purchases when market prices are low.
- (c) Enables industry to keep going when commercial demands fall off--prices low as a result.
- (d) Avoids competition by Navy purchasers against each other.
- (e) Makes business attractive through large orders which permit lower costs of production.
- (f) Permits purchases from manufacturers instead of dealers--eliminates the middleman's profits.

ADMINISTRATIVE

- (a) Puts all stores into 'pool' from which any need may be supplied.
- (b) Makes standardization of stocks possible, eliminates variety of sizes and types and reduces stocks accordingly (112 sizes of brass and copper sheet have been reduced to 31 sizes and all needs met as before; the variety of sizes of tools has been reduced fully one-half in all cases; countless examples could be cited).
- (c) Permits use of a standard stock catalogue, letting every person know what there is in store and what materials the Navy uses.
- (d) Enables designers to adapt plans to materials on hand and ready when work arises.
- (e) Keeps stocks from deteriorating, as oldest stock is now used first.
- (f) Reduces volume of clerical work incidental to purchasing, number of contracts, small inspections, less than carload shipments--clerical work in storehouses.
- (g) Permits development of competent storehouse personnel by enabling men to specialize on separate lines of stores.
- (h) Permits charging off deterioration of stocks at time it occurs.



1. Introduction

- (1) The purpose of this report is to provide a summary of the results of the study conducted by the research team.
- (2) The study was designed to investigate the effects of the proposed intervention on the target population.
- (3) The results of the study indicate that the intervention had a significant positive impact on the target population.
- (4) The findings of this study have important implications for the development of future interventions.

2. Methodology

- (1) The study was conducted using a quasi-experimental design, involving a comparison between the intervention group and the control group.
- (2) Data was collected through a series of surveys and interviews conducted at various time points throughout the study.
- (3) The data was analyzed using statistical methods, including t-tests and ANOVA, to determine the significance of the findings.
- (4) The results of the analysis showed that the intervention group had significantly higher scores than the control group on the primary outcome measure.

3. Results

- (1) The results of the study indicate that the intervention had a significant positive impact on the target population.
- (2) The findings of this study have important implications for the development of future interventions.
- (3) The results of the analysis showed that the intervention group had significantly higher scores than the control group on the primary outcome measure.
- (4) The findings of this study have important implications for the development of future interventions.
- (5) The results of the analysis showed that the intervention group had significantly higher scores than the control group on the primary outcome measure.
- (6) The findings of this study have important implications for the development of future interventions.

4. Discussion

- (1) The results of the study indicate that the intervention had a significant positive impact on the target population.
- (2) The findings of this study have important implications for the development of future interventions.
- (3) The results of the analysis showed that the intervention group had significantly higher scores than the control group on the primary outcome measure.
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- (8) The findings of this study have important implications for the development of future interventions.
- (9) The results of the analysis showed that the intervention group had significantly higher scores than the control group on the primary outcome measure.
- (10) The findings of this study have important implications for the development of future interventions.

- (i) During time of peace, avoids wide fluctuations in prices, such as occur commercially, by averaging prices of stocks on hand with prices of new purchases. This plan of pricing stocks upon averages keeps issue prices below prevailing market prices when the latter are rising and above them when they are falling. So, if the materials purchased are of the right kind for Navy use, there is no loss suffered in any event, for an apparently high issue price now has already been offset by issues at a lower price in the past.
- (j) The centralized buying of the Navy during the war was the one feature of business administration which met with no criticism. It was praised by every man who saw its operations. It has become the model for other Government Departments, and was the foundation upon which the War Industries Board based its plan of control of all Government buying during the war. Naval supply account alone made this possible.

#### PREPAREDNESS

- (a) Permits purchased in time of obvious need and maintains a reserve of imported materials needed for war demand. (The plan of annual appropriations, buying only for needs of the year, does not permit accumulation of materials which can be bought only abroad. When the war came on, unless the Navy had had naval supply account, it is substantially a fact that it would have had too little tin for bearing metal, too little shellac for ships' bottom paint, too little kapok for life preservers or mattresses, too little hemp for cordage, too little nitrate for powder, too little teak for decking, too little wool for clothing.)
- (b) Navy repair work demand stocks to admit of any reasonable repairs being promptly made. Carrying of these stocks adds to sea-keeping ability of the fleet.
- (c) When war was imminent, it permitted immediate purchases of stores which were as valuable to the Government, whether or not war came, as so much gold in the Treasury. The Navy needs for common stores for the first year of the war were contracted for before the war inflation of prices had taken effect.

#### ABUSES PREVENTED

- (a) Use of this year's appropriation to buy materials to be used next year or years later.
- (b) Material may be drawn for use only and may not be drawn now for for use under next year's appropriation.<sup>1</sup>

All Supply Corps Officers understand appreciate Admiral McGowan's

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<sup>1</sup>Report of the Paymaster General of the Navy, Bureau of Supplies and Accounts, to the Secretary of the Navy, 1920 (Washington: Government Printing Office, 1920), p. 20.





enthusiastic endorsement of the Navy Stock Fund and agree that its advantages are manifold. However, I cannot agree that there are no disadvantages to such a type of operation. In my opinion, the biggest disadvantage is one that has not been considered by persons acquainted with the Navy but which certain personnel of the Air Force discuss frequently. The Stock Fund operation "grew up" during an era in which modern accounting had not been introduced in either private enterprise or the government. To overcome this obstacle a fund operation was established which actually accomplished through excellent accounting methods a revolving type of operation far ahead of anyone else in government. As the years passed by and the system was refined, increased benefits accrued usually after new accounting methods were introduced. However, today accounting has become extremely flexible and from a theoretical point of view has caught up with the revolving fund operation. We now have one system interposed upon another and hence we surround ourselves with two accounting systems--one to run the activities of the Navy, while the other runs the Supply system. So many new ways have been devised to account for material and inventories in the last fifteen years, that I believe we could still garner the benefits of such a revolving fund operation without all the complications that have been introduced into our stores accounting system. Also, the use of a stock fund type of operation definitely limits the authority of the commanding officer of an activity because it does not permit him to exercise control over his own inventory levels while the responsibility placed on his shoulder by Navy Regulation is not lessened. Anyone who has studied Business Organization and Management will tell you this is contrary to one of the basic concepts of organization--authority should be commensurate with responsibility.



The disadvantages that I enumerated above, I agree, are open to argument and criticism and are relatively minor in scope when compared to the numerous advantages that are realized from a stock fund operation, but they are real, nevertheless, and should be considered especially when modifications to the plan are being effected.

### Historical Background

Obviously, on anything that has been in existence as long as the Navy Stock Fund, a considerable amount of information is available which covers its history. This dates back as far as an Act of 1893. Prior to this time, from 1878 until 1893, efforts which were related to a stock fund type of operation were placed in existence by Congress but varied from year to year, depending on the mood of the Congress. It is not the intent of this paper to cover the myriad of data written in connection with the history of the stock fund, but I will merely summarize its growth and changing scope since 1893 to the present time in order to set the background for the material to be presented which it is hoped will enlighten the reader as to how the Navy achieves inventory control through financial control.

The birth of the Navy Stock Fund occurred with the Act of March 3, 1893, and the following excerpt is quoted:

. . . and the Secretary of the Treasury is hereby authorized and directed to cause general account of advances to be charged with the sum of two hundred thousand dollars, which amount shall be carried to the credit of a permanent naval-supply fund to be used under the direction of the Secretary of the Navy in the purchase of ordinary commercial supplies for the naval service, and to be reimbursed from the proper appropriations whenever the supplies purchased under said fund are issued for use.<sup>2</sup>

It has been pointed out previously that all has not been smoothness

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<sup>2</sup>27 U. S. Stat. 723 (1893).



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and light since passage of the Act of March 3, 1893. However, over the past sixty years, although there have been periods of retrogression, the trend has been definitely upward with a better understanding, a wider growth, and a more efficient application of the stock fund principle by the Navy. And since World War II, the Army and Air Force as well.

The next significant action took place in 1910, when approximately nine million dollars in materials was transferred from other Navy accounts to the Navy Supply Fund. There were differences of opinion as to whether such a transfer was legal; therefore, the Secretary of the Navy requested a decision from the Attorney General as to the legality of such a transfer. The Attorney General agreed to the logic of the transfer but had reservations as to the legality and therefore recommended that the Secretary of the Navy request the Congress for substantive legislation which would establish the legality of the procedure. The Congress went even further than this, and by the Acts of June 25, 1910<sup>3</sup> and March 4, 1911,<sup>4</sup> directed the transfer of all Naval stores into this account. The effect of this was the requirement that future purchases would be paid from the General Account of Advances and charged to the Naval Supply Account. Upon issue the correct appropriations were charged and the General Account of Advances was reimbursed.

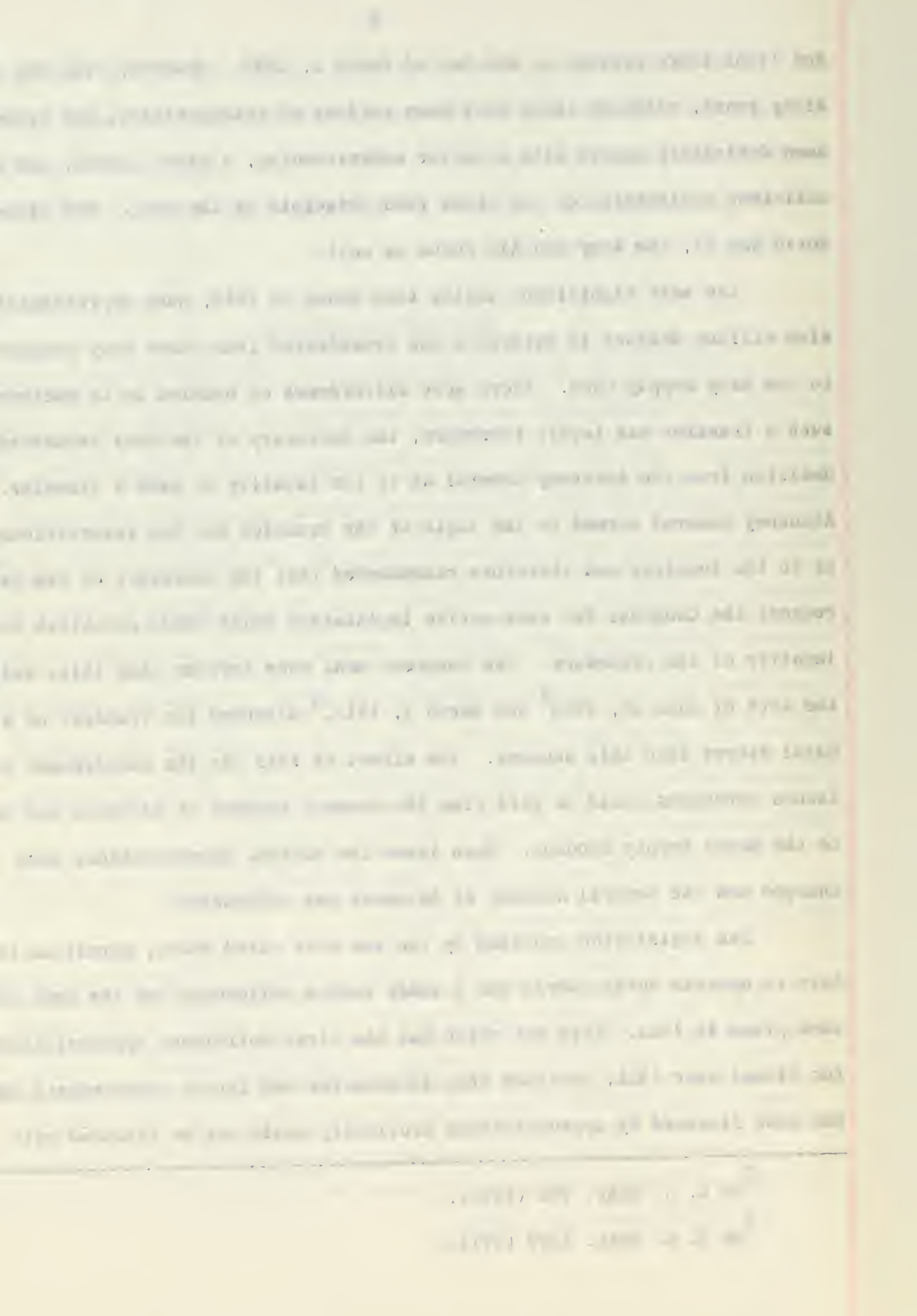
The legislation provided by the two acts cited above, permitted the Navy to operate during World War I under such a philosophy and the next change took place in 1921. This act which was the first deficiency appropriation act for fiscal year 1921, provided that inventories and future procurements which had been financed by appropriations previously would now be financed with the

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<sup>3</sup> 36 U. S. Stat. 792 (1910).

<sup>4</sup> 36 U. S. Stat. 1279 (1911).





Naval Supply Account Fund and that the fund would be reimbursed by the using bureau or customer at the time the material was withdrawn from store. This meant that hereafter the amount of stores purchased would be limited to the cash balance of the fund rather than the total dollar value of Naval appropriations. Between 1921 and 1949 there was little change in the actual methods of the operation of the Naval stock fund except in 1942 when we had had a change in name to Naval Stock Account and Naval Stock Fund.<sup>5</sup>

Every Naval officer is familiar with the history of the military establishment since World War II and the part played by the Commission on the Organization of the Executive Branch of the Government, that resulted in the National Security Act Amendments of 1949, Public Law 216, Title IV.<sup>6</sup> Included in Title IV was new legislation authorizing stock fund operations which broadened their scope considerably and which formed the basis for similar operations in the Army and Air Force. This has been construed by Naval personnel to be a vote of confidence by the Congress of the United States by providing legislation for the other military departments similar to that which the Navy had utilized for over a century and a half.

Department of Defense Directive No. 7420.1, dated 1 February 1954, contains the regulations governing stock fund operations in the military establishment. For the purposes of this paper it is suffice to say that this directive allows the Navy as well as the Army and Air Force considerable latitude including material to be financed by the Navy Stock Fund. It also required that each military department prepare a charter to govern such operations subject to the provisions of instruction 7420.1. These charters would

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<sup>5</sup> 56 U. S. Stat. (1942).

<sup>6</sup> 63 U. S. Stat. (1949).



necessarily have to be approved by the Secretary of Defense. The present charter of the Navy contains the regulations for the operation of the stock fund.





## CHAPTER III

### THE NAVY SUPPLY SYSTEM

The preceding chapter has been concerned with an historical summary of the Navy Stock Fund. During World War II, the Stock Fund was used as a mechanism for the procurement of many kinds of supplies and materials never intended to be financed by the fund and its expanded usage grew to such a degree that the fund suffered many abuses. During the latter part of World War II, a group of Supply Corps officers became convinced that the entire Navy supply system would have to be drastically changed if the Supply Corps was to be able to continue to fulfill its obligations to the Navy in regard to the procurement, transfer, receipt, storage, issue and accounting for Navy material. Accordingly, a major study was conducted in the Logistics and Planning Division of the Bureau of Supplies and Accounts which led to a recommendation to reorganize the post-war Navy supply system. In the words of Rear Admiral A. A. Antrim, Supply Corps, USN;

This was one of the greatest advantages toward a more effective and efficient supply system during my time in the Navy. It was the product of the combined efforts of a group of young Supply Corps officers and resulted in a new concept of inventory control badly needed by the war-strained supply system.<sup>1</sup>

As a result of these recommendations, Secretary of the Navy James Forrestal approved the establishment of the Navy Supply System on 14 February

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<sup>1</sup>Bureau of Supplies and Accounts, Rear Admiral Antrim Retires, Monthly Newsletter, Vol. XIX, No. 4, April 1956, Navy Department, Washington, D. C., p. 6.



1947. In brief, this combined some thirty odd separate Navy supply "systems" into one flexible system dominated by the Bureau of Supplies and Accounts.<sup>2</sup>

The plan presented to the Secretary of the Navy by the Chief of the Bureau of Supplies and Accounts was approved almost in its entirety. One notable change was that recommendation six, which stated that the procurement of all Naval material included in the Navy Supply System would be financed by the Naval Stock Fund was modified so that only replenishable items would be financed by the Naval Stock Fund to the extent permitted by its capital and in accordance with schedules jointly prepared and agreed upon by the Chief of the Bureau of Supplies and Accounts and the technical bureaus concerned.<sup>3</sup> History has proven the soundness of Secretary of the Navy Forrestal's decision. The modification to recommendation six has provided the Supply Corps with sufficient latitude to increase the scope of the Stock Fund operations immeasurably since 1947. As a matter of record, the National Security Act Amendments of 1949, Public Law 216, Title IV, authorized and encouraged the use of revolving funds. Also the reports of the Hoover Commission<sup>4</sup> and the Cooper Committee,<sup>5</sup> have urged the extension of the use of the Stock Fund. As a result, new items are being included in the fund each year. Present plans call for ordnance spares to be financed by the Naval Stock Fund beginning with the fiscal year 1958, while serious consideration is also being given to the

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<sup>2</sup>Ibid.

<sup>3</sup>The Integrated Supply Plan submitted by the Chief, Bureau of Supplies and Accounts to CNO, January, 1947.

<sup>4</sup>Commission on the Reorganization of the Executive Branch of the Government, a Report to Congress entitled "Budget & Accounting," Government Printing Office, Washington, D. C., dated June, 1955.

<sup>5</sup>Report of the Advisory Committee on Fiscal Organization and Procedures in the Office of the Secretary of Defense, dated 1 October, 1954.





placement of aviation spares in the Stock Fund in a subsequent year. Because of the high degree of obsolescence and the considerable monetary loss which the fund would be required to sustain, most persons agree that aviation spares should remain in the Appropriations Purchases Account.

In addition, this plan called for the establishment of thirteen "Supply Offices." These were later called Supply Demand Control Points and now number fourteen. One of the supply offices recommended to be established was the General Stores Supply Office now located at Philadelphia, Pennsylvania, which was established as the program manager over cognizance "G" material of the Naval Stock Fund. One basic concept which the Navy supply system envisioned was that single procurement responsibility would be the most efficient method of obtaining and maintaining replenishable stocks. It was believed that material benefits of this appropriation for replenishable stocks would be felt in the simplification of stores accounting and reporting in the field and the separation of procurement and stocking program accounting from operations and project accounting for the Navy as a whole. In other words, a single inventory account was conceived for replenishable materials which would permit the elimination of the need for duplicate stock inventories at Bureau level. In order to implement the plan approved by the Secretary of Navy Forrestal, the Bureau of Supplies and Accounts began to decentralize control over various phases of the Navy supply system to the Supply Demand Control Points. Because the Bureau of Supplies and Accounts had always controlled common use type items, both from the financial picture as well as inventory control, one of the first Supply Demand Control Points to be established was the General Stores Supply Office. On 15 May 1947, the General Stock Division of the Bureau of Supplies and Accounts was redesignated as the General





## Stores Supply Office.

Before a discussion of the responsibilities of the General Stores Supply Office is undertaken, it is believed advisable to summarize very briefly the intent of the Navy Supply System which is as follows:

It encompasses the functions of procurement and distribution of material necessary to maintain and support the operations of the Naval establishment in order to make acceptable the vast quantities of material required to supply the Navy, stocks of materials have been established at various continental and extra-continental activities. Material under the cognizance of all bureaus is channelled through these supply outlets. Overall control of procurement, storage and distribution of specific categories of material is performed by cognizant activities designed as Supply Demand Control Points. Each Supply Demand Control Point operates under the joint control of the Bureau of Supplies and Accounts and the technical bureau having prime responsibility for the category of material administered by that supply demand control point. For example, the Aviation Supply Office at Philadelphia is managed by the Bureau of Supplies and Accounts but receives technical control from the Bureau of Aeronautics.<sup>6</sup>

In order for the Bureau of Supplies and Accounts to fulfill its responsibilities under the Navy Supply System, fourteen Supply Demand Control Points are now operating. The last one to be established was the Forms Control Supply Demand Control Point at Washington, D. C., early this year.

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<sup>6</sup>The Organization Manual, U. S. Navy General Stores Supply Office, Philadelphia, Pa., Third Edition, dated 28 February 1956, p. 5.



## CHAPTER IV

### THE GENERAL STORES SUPPLY OFFICE

Of the fourteen Supply Demand Control Points, this paper is concerned primarily with the operations of the General Stores Supply Office. It was stated in Chapter III that the first General Stores Supply Office was established in May 1947, by renaming the General Stock Division of the Bureau of Supplies and Accounts. In the fall of that same year, the office was moved from Washington, D. C., to Philadelphia, Pennsylvania, where it became a tenant on the compound of the Naval Aviation Supply Depot. The present General Stores Supply Office moved into a new building which was completed July 17, 1953. Since its inception in May 1947, the growth of the General Stores Supply Office has been progressive; expansion has been accelerated by the material demands engendered by foreign aid, mutual defense programs and the Korean conflict, and further expanded by the additional responsibility of providing for future military and industrial mobilization planning.

The General Stores Supply Office administers the Navy supply system for that category of material known as general stores material which is described in the Bureau of Supplies and Accounts Manual, paragraph 14004.8 and the GSSO Manual of Operating Procedures, paragraph 11002.<sup>1</sup>

The major areas of administration are the procurement, distribution, storage, disposal and cataloging of General Stores material.<sup>2</sup>

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<sup>1</sup>Ibid.

<sup>2</sup>Ibid.





At the present time the General Stores Supply Office is organized into eight divisions, as follows:

Machine Records Division

Financial Control Division

Systems Planning Division

Management Planning and Administrative Division

Stock Control Division

Industrial Mobilization Division

Purchase Division

Technical Division

Inventory control over stock levels is a primary responsibility of the Stock Control Division. However, inventory control through financial control is exercised by the Financial Control Division officer.

Before continuing a detailed study of the General Stores Supply Office, it is important to point out that this Supply Demand Control Point does not have the material stored physically at the activity but acts as a central business management headquarters for the commodity area for which it is assigned.

The entire operation of the General Stores Supply Office can best be summarized by a statement of its mission which is as follows:

The current Mission of GSSO is outlined by BUSANDA Instruction 5450.42. The Material Mission of GSSO contained in BUSANDA Instruction 4421.3 delineates cognizance symbol "G" material. The Mission of GSSO, in brief, is:

To direct and/or perform procurement, distribution, storage, issue, establishment and maintenance of stock levels, and disposal of materials for which the General Stores Supply Office is the supply demand control point; to conduct technical research and recommend changes to the Navy Stock List for items of General Stores Material; to formulate and implement sound inventory control policies and procedures for the operation of the General Stores Supply System as dictated by the needs of the service and the





civilian economy; to establish and maintain liaison with the bureaus of the Navy Department relative to technical research and development of General Stores Material and with the departments of the Army and Air Force concerning coordinated procurement of General Stores Material; to develop and publish allowance lists, load lists, and initial stock lists; to determine mobilization requirements and secure allocation of industrial production capacity for General Stores Material required for the period of mobilization; to compile, develop, maintain, and provide budgetary information, material usage data, factual planning data, and logistic support data; to perform such ancillary functions as may be assigned by the Bureau of Supplies and Accounts.<sup>3</sup>

At this time I would like to consider the functions the Financial Control Division and to attempt to relate how it performs inventory control through financial control. The prime responsibility of the Financial Control Division is to manage financially the General Stores Supply Office allocation of the Navy Stock Fund. I realize that this is an over-simplification of the job, but I expect to expand on it throughout the remainder of the paper. In fiscal year 1956, GSSO had approximately 178 million dollars available for procurement, of which 142 million dollars were obligated under contracts. In addition to its budgetary, auditing and financial control functions, the Financial Control Division has another major responsibility which is standard pricing, a procedure essential to the maintenance of the capital structure of the Navy Stock Fund. By adjusting the unit prices of commodities under GSSO cognizance in relation to commercial prices for comparable items, sufficient returns are realized upon issue of material from stock to provide for replenishment of the material without affecting the basic fund.<sup>4</sup>

The organization manual of the General Stores Supply Office describes the scope of the duties of the Financial Control Division as follows:

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<sup>3</sup>BUSANDA Instruction 5450.42, dated 29 May 1953.

<sup>4</sup>Ibid., p. 300-1.





To coordinate the preparation of budgetary requirements for and maintain the records on funds allotted to the General Stores Supply Office for procurement of material and services under its cognizance; to determine annual stratification of General Stores Material and maintain records of the stratification of inventories; to maintain accounting records to provide full disclosure of the financial operations and resources of the General Stores Supply System and operation of the General Stores Supply Office; to insure effective procurement of General Stores Material within prescribed budgetary limitations through allocations and control of quarterly NSF allotments; to establish, review, and disseminate standard unit prices for General Stores Material; to maintain overall financial management of inventories, including matters relating to charges and credits between appropriations for stores receipts and issues of material under the cognizance of the General Stores Supply Office; to advise management of changes in the financial structure of inventories of the General Stores Supply System.<sup>5</sup>

The work of the Financial Control Division is accomplished in the following three branches; (1) Stock Finance Branch, (2) Stock Pricing Branch, and (3) Material Budget and Investment Branch. In order to carry out these functions there are twenty-eight civilians and one officer assigned at the present time. This complement should remain fairly stable as it appears that the allocation of funds for procurement of Naval Stock Account material by the Stock Fund Administrator in the Bureau of Supplies and Accounts has reached a leveling off stage--depending on whether the mission of the General Stores Supply Office is changed.

The Stock Finance Branch performs commitment, obligation and expenditure accounting for that portion of the Stock Fund allocated to the General Stores Supply Office in very much the same fashion that a Cost and Reports Section in a Fiscal Office in a Navy field activity maintains obligation and expenditure records for allotments assigned to the command. The "ground rules," which apply as to legality of an obligation for a field activity is for all intents and purposes the same at GSSO. Also, the same penalties which apply to a

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<sup>5</sup>Ibid., p. 300-5.





commanding officer at a field activity for over-obligation and over-expenditure of allotments assigned to his command can also be levied against the Commanding Officer of GSSO for over-obligation or over-expending that portion of the Naval Stock Fund for which he is the program manager. Because the details of the financial transactions are recorded in the commitment and obligation and expenditure records in this section, it has the largest number of civilian personnel employed.

A new word is used in this phase of the operation and it is known as a commitment. This is defined as a reservation of funds which reflects the estimated cost for the material to be procured.<sup>6</sup> In other words the commitment is recorded as an estimate at the time the contract is contemplated or the request is written while the contract price is the formal obligation and is recorded on the books at the time the copy of the contract is received in the Financial Control Division. Also any adjustment in price differential is debited or credited at this time.

Besides keeping the details of the obligations which reflect the purchase action at the General Stores Supply Office, sub-allotments of funds are made to specified field commands to permit commanding officers to procure locally certain material utilizing the Navy Stock Fund as the source of funds. This is somewhat limited, but permits flexibility as it may not pay the Navy to buy certain items system wide. NavExos 3443's (Status of Allotment) are submitted to GSSO by each activity holding a sub-allotment and these in turn are consolidated by GSSO into a single NavExos 3443 report to the Bureau of Supplies and Accounts in Washington. The review of information based on usage

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<sup>6</sup>Manual of Operating Procedures, General Stores Supply Office, Philadelphia, Pennsylvania, Chapter III, dated July 25, 1955.

Community service as a field activity for the students and members of the community. The students are to be encouraged to participate in the service projects as a part of their normal school activities. The service projects should be planned so that they will be of benefit to the community and will also be of benefit to the students. The service projects should be planned so that they will be of benefit to the community and will also be of benefit to the students.

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of material determines "what" the field activities can buy, but the amount is determined by the Financial Control Officer except when the sub-allotment exceeds \$50,000.<sup>7</sup> In these cases the commanding officer of GSSO approves the sub-allotment.

The work performed by the Stock Finance Branch is fairly well defined by regulations and directives from higher authority which makes it somewhat easier to administer from a technical point of view. However, in the Stock Pricing Branch considerable latitude in the administration of the functions is left to the discretion of the Financial Control Officer. The main function performed here is the establishment of standard unit prices consistent with current replacement costs to prevent excessive gains or losses to the Naval Stock Account for standard general stores material.<sup>8</sup> This statement needs re-examination in order to understand all the facts implicit in the innocent phrase mentioned above. First we must remember that the Navy Stock Fund is a revolving fund and it is to be self-perpetuating. Therefore, all income must equal all expenses over a given period of operation. Secondly, our selling price--standard Navy price--must be reasonable and cheap enough to satisfy our customers and we must be able to sell to them for a cheaper price than they can realize by purchase through regular commercial sources. Thirdly, regulations require that the first cost of transportation must be borne by the Navy Stock Fund. Also, we are all familiar with obsolescence and the havoc it has wrought on stocks due to changing military requirements. Both of these factors

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<sup>7</sup>Memorandum from Commanding Officer, GSSO, to Lcdr. J. P. Andrews, Subject: Delegation of Duties in Connection with the Administration of Navy Stock Fund Allocation to GSSO, dated 1 March 1955.

<sup>8</sup>Organizational Manual, GSSO, 3rd Edition 300-6.







must be included when establishing "selling prices," as the selling price represents practically all the income that the fund receives except for additional sums of money appropriated by Congress. I believe the three reasons cited above give ample proof that the task of pricing standard general stores material is no "cinch."

Before the discussion of the Material Budget and Investment Branch is undertaken, I believe that the importance of budgeting in the Navy Supply System can be summarized as follows:

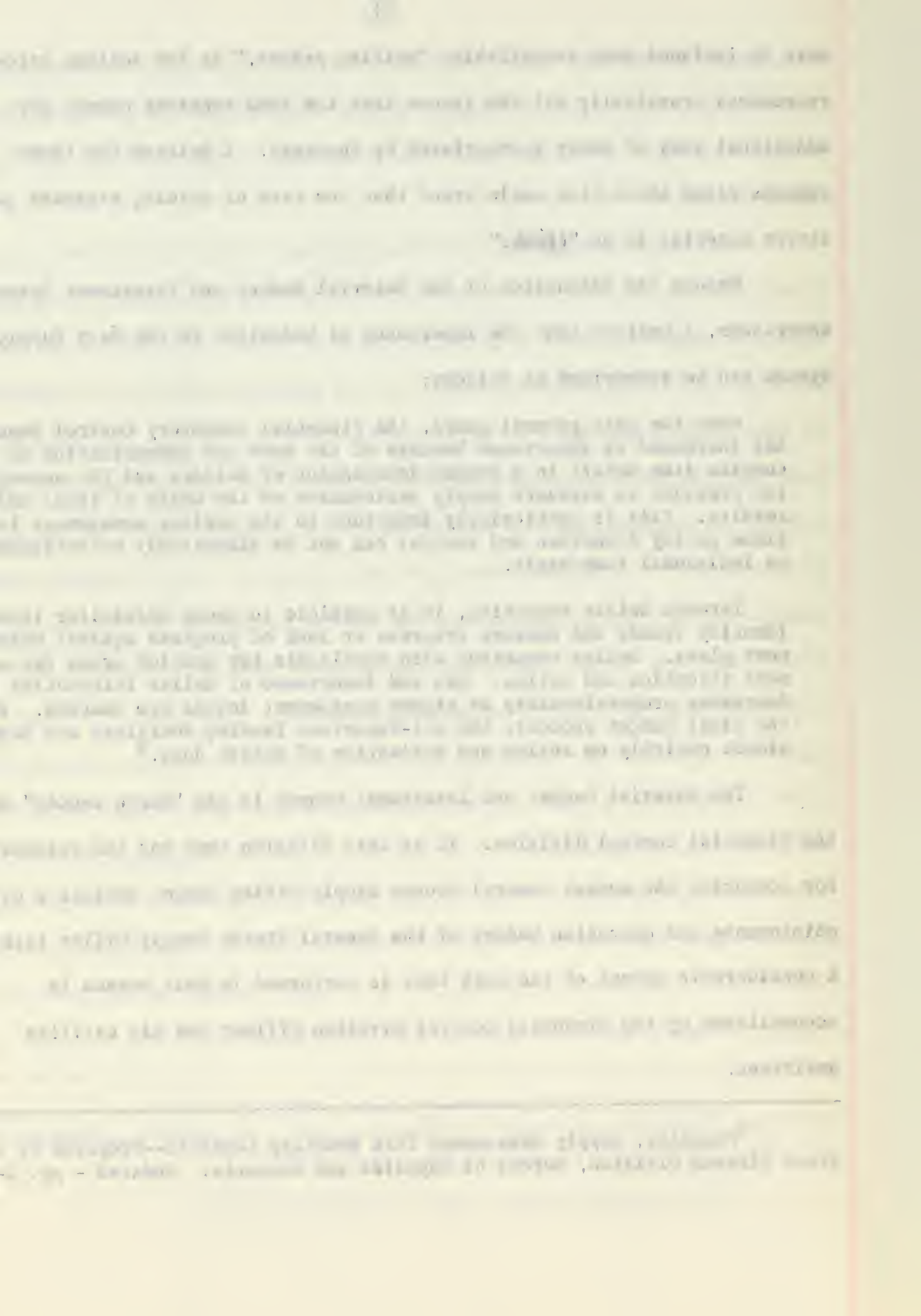
Over the past several years, the Financial Inventory Control Report has increased in importance because of the need for summarization of complex item detail in a common denominator of dollars and the accompanying pressure to evaluate supply performance on the basis of final dollar results. This is particularly important to the various management levels since policy direction and control can not be effectively established on an individual item basis.

Through dollar reporting, it is possible to group dissimilar items, identify trends and measure progress or lack of progress against management plans. Dollar reporting also spotlights key problem areas for management attention and action. Use and importance of dollar information increases proportionately as higher management levels are reached. In the final budget process, the all-important funding decisions are based almost entirely on review and evaluation of dollar data.<sup>9</sup>

The Material Budget and Investment Branch is the "nerve center" of the Financial Control Division. It is this Division that has the responsibility for preparing the annual General Stores Supply Office budget exclusive of the maintenance and operation budget of the General Stores Supply Office itself. A considerable amount of the work that is performed in this branch is accomplished by the Financial Control Division Officer and his civilian assistant.

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<sup>9</sup>Pamphlet, Supply Management Thru Monetary Controls--Prepared by the Stock Finance Division, Bureau of Supplies and Accounts. Undated - pp. 2-3.



The budget cycle for the General Stores Supply Office is much the same as any other government department or agency in that the basic information and criteria which is to be included in the budget submission is based on information passed down to GSSO from the Bureau of Supplies and Accounts. The information which the Bureau of Supplies and Accounts forwards to the Supply Demand Control Points is, of course, based on data which is published by the Secretary of Defense to the Secretary of the Navy. It is true that the budget call released by the Secretary of Defense must be general in scope as it must cover the operations of all three of the military establishments. However, in the Stock Fund area it does state for example whether new items should be included, a general picture whether mobilization reserves should be increased or decreased, and also whether the capital of the fund should be increased or decreased. The budget which the General Stores Supply Office submitted for fiscal year 1956 was extremely detailed. As a matter of fact, the budget included the calculation of requirements on an item basis for all 73,000 items in the General Stores segment of the Navy Supply System. This meant that a detailed sheet was devoted to each item and included the following factors: The anticipated sales for fiscal year 1956; the peacetime operating stock levels on hand and on order; the economic reserve applicable to the anticipated sales; the sales procurement requirements as well as adjustments for local procurement and new item requirements. Also, estimates covering price adjustments as well as the cost of repair of certain condition code material were submitted. Lastly, the figures included the inventory level which was estimated would be on hand 30 June 1956.

In addition to the details listed above, the Financial Control Division Officer also considered two other very important elements in assembling the







General Stores Supply Office budget. These two elements are known as Fractionation and Stratification in the Navy. Fractionation is accomplished by adding a code letter to the stock number which identifies the item as to Fast, Medium or Slow moving stock. There are other fraction codes which are considered, but the above listed ones are the most important. In other words, funds must be provided for fast moving items to keep stocks of the servicing activities at such a level as to meet customer demands. Then, too, the fact that an item is coded "F" means that it will turn over a number of times during the year; hence, less money will be required to support "F" items proportionally than "S" items. Stratification is the division of stock levels into such categories as peacetime stock levels, mobilization material requirements, mobilization reserve stocks, economic reserves and excess stocks. From this we can see that the budget structure must consider the complete stock program to insure that the Navy can meet its logistics requirements in relation to the performance of its mission.

In order to budget in the manner outlined above, the General Stores Supply Office estimated that sales of General Stores material would approximate \$180,382,323 in fiscal year 1956, and that approximately \$156,000,000 would be committed in new funds during this same fiscal year.

After the budget has been prepared by the Financial Control Division Officer, it is submitted to the Commanding Officer of the General Stores Supply Office for review and approval. It is then submitted to the Bureau of Supplies and Accounts (Stock Fund Administrator) for coordination and correlation with the budgets of the other Supply Demand Control Points which manage other segments of the Navy Stock Fund. The annual budget is required in BuSANDA, under the latest instructions issued by the Secretary of the Navy,



by July of the prior fiscal year to which it applies. When this budget estimate is being reviewed by representatives of the Chief, Bureau of Supplies and Accounts, any additional information or data required of the General Stores Supply Office is furnished in testimony or written form by the Financial Control Division Officer of the General Stores Supply Office.

During the month of April of this year, detailed studies were conducted of the revised fiscal year 1957 budget based on the "mark-up" which the House of Representatives Subcommittee on Appropriations had taken in its review of the entire Federal government budget. As a result, it was necessary to make certain revisions in each of the budgets of the Supply Demand Control Points. It is believed significant that the representative from the General Stores Supply Office during the course of these hearings was the Financial Control Division Officer. In other words, the Commanding Officer of that activity felt that the financial requirements for his activity could be justified and programmed better by permitting the Financial Control Division Officer to act in his behalf. We are all familiar with the thought that Congress believes that the best control it can exercise over the affairs of the Federal Government is in the amount of money which it appropriates. It seems fairly certain that the Bureau of Supplies and Accounts believes that the best way it can control the inventory levels at supply activities is through the amount of money which it allots to each of its program managers at the Supply Demand Control Points.

Another important function which is closely related to that of budget and which is performed by the Material Budget and Investment Branch of the Financial Control Division is the recommendation of dollar amounts to be obligated for material procurement at any one time.







Before such recommendations can be submitted, a number of economic factors must be taken into consideration. These are summarized below as follows:

- a. Contract history cards maintained by the General Stores Supply Office showing system-wide procurement costs through 30 June 1955.
- b. Data shown on Procurement Document Change Requests indicating increases or decreases to initial requisition values required for contract negotiations with industry.
- c. Wholesale prices by specific material categories, 1 Jan 1947 through 30 June 1955, published by the Bureau of Labor Statistics.
- d. Weekly bulletins of the National Association of Purchasing Agents.
- e. Survey of Current Business published by the Department of Commerce.
- f. Monetary and business statistics of the Federal Reserve Board of Governors along with supplementary regional business reports of the twelve Federal Reserve District Banks.
- g. Wall Street Journal.
- h. "Steel" and other comparable trade journals.
- i. Class Price Reviews of GSSO upon which standard price revisions will be based after completion of conversion to Federal Stock numbers on 1 Oct 1955.<sup>10</sup>

After these factors have been considered, recommendations are then submitted regarding amounts to be purchased if the particular commodity market appears favorable and also price adjustments can then be recommended, if the economic factors dictate such an adjustment to be practicable.

Another troublesome area which receives consideration in this branch is the budget of the amount of money to provide for procurement of general stores material by the local commands. Because this includes purchases of non-standard material, there is little basis to provide criteria to use except

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<sup>10</sup>General Stores Supply Office Budget for Fiscal Year 1956, Exhibit 7, page 1 of 5, Philadelphia, Pennsylvania, undated.



the experience that has been gained from previous years operations.

The budget as prepared by the Financial Control Division utilizes reports submitted by field activities and summarized by the Machine Records Division of the General Stores Supply Office. The basic report submitted by the field activities for this purpose is the Financial Inventory Control Report (SCA Form 255). This report is submitted quarterly by all ashore activities rendering stores returns except Commissary Stores and Clothing Retail Stores.<sup>11</sup> This report contains the following information for each Class Cognizance Symbol covered in the report:

- Class
- Closing Inventory
- Interclass and Intercognizance Transfers
- Transfers Other Supply Officers
- Fiscal Losses
- Material Losses
- Surplus Disposal
- Without Reimbursement to Appropriation
- With Reimbursement to Appropriation
- To Use Under Appropriation<sup>12</sup>

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<sup>11</sup>Pamphlet, Supply Management Thru Monetary Controls, prepared by Stock Finance Division, Bureau of Supplies and Accounts, page 5, Washington, D. C., undated.

<sup>12</sup>Ibid.





## CHAPTER V

### CONCLUSION

The previous chapter has reviewed the operations which are conducted in the Financial Control Division of the General Stores Supply Office and has attempted to point out the significant part that financial control plays in inventory control. Because the budget procedure is fairly well defined by the requirements of Congress, the Department of Defense, the Secretary of the Navy and the Bureau of Supplies and Accounts, there is practically no area left for the Financial Control Division Officer to develop his own ideas in the preparation and submission of the General Stores Supply Office budget. After all, the instructions which he receives are detailed as to what is required by the reviewing authorities. As his budget is prepared, it is largely a summarization of the thousands of calculations which are made on a line-item basis and if these calculations are accurate the budget pretty much justifies itself. He does exercise some foresight and ingenuity in determining the amounts of stock to be procured at any given time. Also, the Financial Control Division Officer is dependent to a very large degree upon the information which he receives from the field activities in the submission of their returns. This information is received from the field through the medium of a quarterly report known as the Financial Control Inventory Report (NAVSandA Form 255), and is received quarterly by all Supply Demand Control Points performing supply management functions for a particular category of material.<sup>1</sup> In planning

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<sup>1</sup>Ibid., p. 5.



the program, accurate and meaningful historical facts are essential. Therefore, the Financial Control Division Officer must rely on this data included in these reports submitted to GSSO by the field activities. At the present time, he has little or no control over the manner in which this information is submitted. Also, the responsibility for the actual audit of these reports rests with the Navy Regional Accounts Office, which serves the district in which the field activities may be located. The NavSanda Form 255 is a substantiating document which supports the Stores Returns of the Fiscal Officer of the Navy field activities. When I asked the personnel in the Bureau of Supplies and Accounts (S-7, Stock Finance Division), who administer the Navy Stock Fund, as to whether there was any concern over the reliability of the figures which the numerous field activities were submitting in the NAVSanda Form 255, I was informed that there was considerable doubt as to whether the figures were really as reliable as they should be. The same people went on to explain, however, that as far as they were concerned, the instructions which have been issued to the field provide ample guidance for the personnel in the field activities and that if used properly should result in accurate reliable reports being submitted.

After careful consideration, I recommend that the Bureau of Supplies and Accounts consider the feasibility of transferring the responsibility for auditing the quarterly Financial Inventory Control Report (S and A Form 255) from the Navy Regional Accounts Offices to the applicable Supply Demand Control Point. There is one apparent disadvantage to this recommendation which would necessarily have to be considered very carefully. The recommended procedure could result in each SDCP issuing its own instructions to the field activities and as a result the Fiscal Officer in a Navy field activity could be faced







with the problem of receiving instructions from ten different Supply Demand Control Points each requiring a different format for each NAVSandA Form 255, thus thrusting upon the shoulders of the field Fiscal Officer a procedural problem which would be cumbersome, confusing, and well nigh impossible to implement. However, in the final analysis, I believe this could be controlled by the Stock Fund Administrator in the Bureau of Supplies and Accounts as he is the representative of the Chief of the Bureau of Supplies and Accounts in administering the Naval Stock Fund. Since each of the SDCP's operate a segment of the Naval Stock Fund under his management control, directives could be issued which would require similar reports from all field activities but which would permit a detailed analysis and review by the applicable SDCP of that portion of the NAVSandA Form 255 which applies to it. Also, the Supply Demand Control Point should be allowed to question such facts as balances, rate of issue, dollar volume of issue, adjustments, and should be acquainted with the procedures by which the field activities gather the information to be submitted in the reports.

During the course of the school year, I have become acquainted with a new approach to inventory management where multiple shipments to numerous points of control are involved. This new subject is called "Mathematical Programming." Since the General Stores Supply Office employs several statisticians, it may be feasible to review the methods by which shipments are made from factories to bulk supply centers and depots, as well as to review the policies which dictate the shipment of material to secondary supply points. Because the first cost of transportation is a charge to the Naval Stock Fund, considerable savings may be realized by instituting a Mathematical Programming operation at the General Stores Supply Office.



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